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NORTHSTAR RESOURCES

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NORTHSTAR RESOURCES LTD.

ANNUAL REPORT 1981

Published April 14, 1982

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The Annual Meeting

The Annual General Meeting of the Shareholders of the Company will be held at the Delta Bow Valley Inn, 209 4 Avenue S.E., Calgary, Alberta, at 10:15 a.m., May 14, 1982.

President's Letter

TO THE SHAREHOLDERS:

Petroleum industry conditions world-wide are in a state of deterioration. A wide-reaching recession and uncertainty over future oil prices caused by the current surplus are major contributing factors.

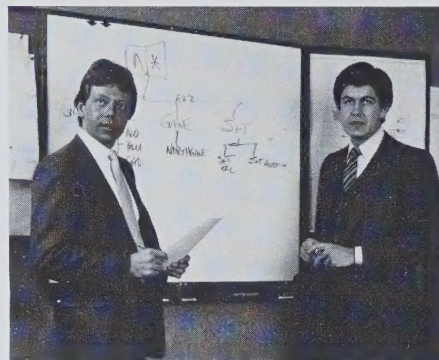
In Canada, the Federal Government's ill-conceived National Energy Program has seriously compounded the problem. Confiscatory taxes and an unmanageable morass of regulatory red tape are damaging the whole industry.

More than two years ago, Northstar responded to more attractive opportunities outside of Canada by expanding the base of its exploration operations to Houston. In recent months, in the face of worsening economic conditions, we have responded decisively once again. We are determined to strengthen every aspect of Northstar's business and its financial position through any prudent means at our disposal.

The following developments are a direct result of our determination to succeed in achieving those objectives.

- **Michael M. Kanovsky**, Executive Vice President is moving to Houston, to assume corporate management responsibility for Northstar Resources Inc. This move reflects the emphasis to be placed on the future development of the Company's U.S. asset base.
- **Currently** - We are negotiating the sale of 70% of our interest in the Salinas Valley prospect, California. (See P. 9)
- **March 31, 1982** - We concluded the sale of 2,000,000 Northstar common shares from treasury at \$3.00 per share. The proceeds were reinvested in GLN Investments Ltd., a new private company which is the largest shareholder of Union Gas Limited. (See P. 3)

- **January 12, 1982** - We agreed to merge Northstar's Canadian oil and gas operations with Gane Petroleum Corporation Ltd., a public company previously 21% owned by Northstar. The reorganized company, Gane Energy which will be controlled by Northstar, will have oil and gas assets of approximately \$50 million while, at the same time, substantially reducing overheads between our two companies. (See P. 4)



Michael M. Kanovsky, John A. Hagg

- **January 1, 1982** - We completed the sale of certain of Northstar's Alberta natural gas properties for \$4.9 million and, subsequently, paid off a similar amount of long-term debt. (See P. 6)

- **December 23, 1981** - We entered into an option agreement, which has now expired, to sell Northstar's interests in S & T Drilling. (See P. 11)

All of these significant moves have been undertaken after the company's November 30 year end. Together, they have strengthened considerably the company's financial position. In addition, we have allied our organization with important new investors, through GLN, and highly respected oil and gas people, at Gane Petroleum.

We believe that Northstar has come a long way towards establishing a strong foundation on which to build the future of this company. The continued support and participation of our employees and shareholders is greatly appreciated.

On behalf of the Board,

John A. Hagg
President

April 8, 1982

1981 HIGHLIGHTS

	1981	1980
TOTAL ASSETS	\$ 73,623,000	\$ 20,637,000
REVENUES	\$ 22,959,000	\$ 1,789,000
NET EARNINGS (LOSS)	\$ (293,000)	\$ 525,000
EARNINGS (LOSS) PER SHARE	\$ (0.10)	0.08
CASH FLOW	\$ 2,412,000	\$ 829,000
CASH FLOW PER SHARE	\$ 0.35	\$ 0.13
WELLS DRILLED		
- Canada	33	52
- United States	52	10
LAND HOLDINGS (GROSS)		
- Canada	471,000	346,000 acres
- United States	235,000	36,000 acres
DRILLING RIGS		
- Canada	9	—
- United States	3	—
- Australia (January, 1982)	4	—
COMMON SHARE PRICE		
- High	\$ 10.25	\$ 8.00
- Low	\$ 2.30	\$ 5.50
PREFERRED SHARE PRICE		
- High	\$ 10.125	Not Applicable
- Low	\$ 5.50	

GREAT LAKES NORTHSTAR JOINT VENTURE ANNOUNCED

Immediately prior to the printing of this report, Northstar entered into an agreement with Great Lakes Power Investments Limited, one of the Brascan group of companies, which will have a significant impact on Northstar's future business activities.

Northstar and Great Lakes have formed a new company, GLN Investments Limited, which will be owned initially 20% by Northstar and 80% by Great Lakes. Northstar will have the right to increase its shareholdings over time to equal that of Great Lakes.

GLN has acquired two million common shares of Northstar from

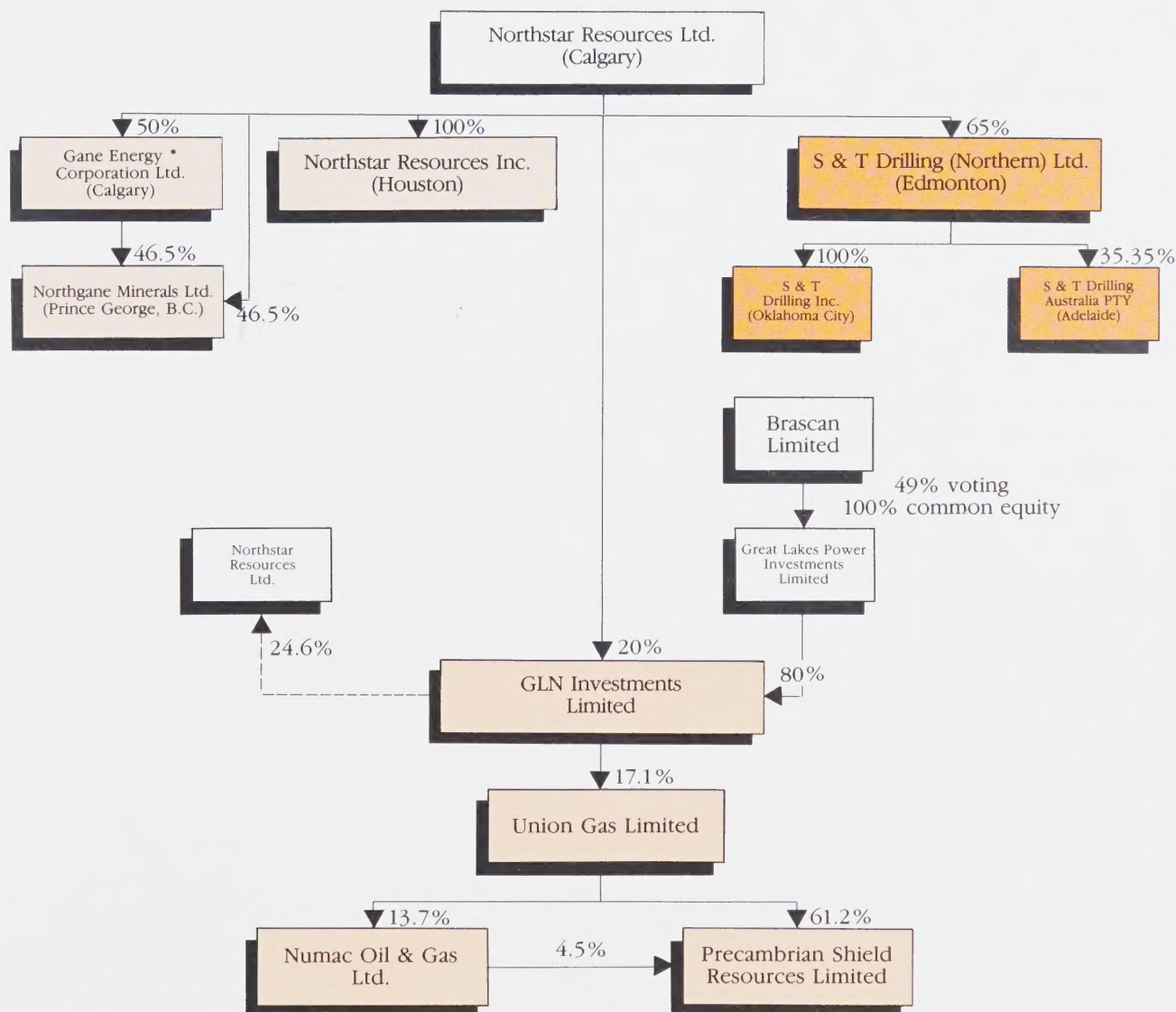
treasury at \$3.00 per share, the proceeds of which have been reinvested in common and junior preferred shares of GLN. The issue represents approximately 24.6% (21.8% on a fully diluted basis) of Northstar's outstanding common shares and makes GLN the largest shareholder in Northstar.

Through Northstar and Great Lakes, GLN has acquired 17.1% of the common shares of Union Gas Limited. Union Gas, in addition to its southwestern Ontario natural gas utility operations, owns 61.2% of Precambrian Shield Resources Ltd. of Calgary and 13.7% of Numac Oil

and Gas Ltd. of Edmonton. GLN is by far the largest single shareholder of Union Gas and we expect this significant investment interest will warrant representation at the Board level of Union Gas.

GLN, with this strong asset base, will be in a position to consider other opportunities, particularly undervalued situations in the Canadian junior oil and gas field, as they become available from time to time. In this regard, uncertainties facing the petroleum industry throughout North America have caused the shares of almost every publicly traded company to fall well below their underlying asset values.

CORPORATE STRUCTURE



*The Company currently owns 21% of Gane Petroleum. After the reorganization it is anticipated that Northstar will own approximately 50% of Gane Energy.

NORTHSTAR BOARD OF DIRECTORS FOR 1982 - 83

The Board of Directors of the Company currently comprises seven people of whom four are senior company officers and three are outside directors. The directors will be re-nominated at Northstar's Annual General Meeting scheduled for May 14, 1982.

In addition, we are pleased the following individuals will be nominated at the meeting to serve as directors of the Company for the first time:

James W. Davidson (Edmonton)
Mr. Davidson is currently President of S&T Drilling (Northern) Ltd., a 65% owned subsidiary of Northstar.

Robert A. Dunford (Toronto)
Mr. Dunford is Senior Vice-President of Brascan Limited, President of Great Lakes Power Investments Limited and President of GLN Investments Limited. Effective March 31, 1982, GLN Investments Limited became Northstar's largest shareholder.

Norman R. Fischbuch (Calgary)
Dr. Fischbuch is President and Chief Executive Officer of Gane Petroleum Corporation Ltd. and will be joining Northstar's Board as part of the Northstar/Gane reorganization.

John T. Hooper (Houston)
Mr. Hooper, an attorney and partner in the firm of Reynolds, Allen, Cook, Pannill & Hooper, has had extensive experience in the oil and gas industry in the United States. He will be appointed an Honorary Director of the Company.

NORTHSTAR MANAGEMENT APPOINTMENTS

Richard W. Switzer, Senior Vice President of the Company, is now located in Houston and is Vice President of Northstar Resources Inc.

Anthea E. Lister has been appointed Treasurer of Northstar Resources Ltd. to replace David G. Scobie (effective April 1, 1981). Mrs. Lister is the Company's senior financial officer in Canada.

Northstar/Gane Reorganization



Jack C. Lee, Executive Vice President,
Dr. Norman Fischbuch, President,
Gane Petroleum/Gane Energy.

As announced on January 12, 1982, Northstar is in the process of merging its Canadian oil and gas assets together with Gane Petroleum Corporation Ltd. to form Gane Energy Corporation Ltd. Northstar will hold approximately a 50% interest in the new company and will undertake its future oil and gas activities in Canada through Gane Energy. It is anticipated the merger will be completed prior to May 31, 1982. The combined oil and gas assets plus undeveloped land holdings for the two companies will provide Gane Energy with a stronger financial base and enable it to more effectively compete in the present economic environment.

Key Management

Gane's management organization, strengthened by the addition of Northstar personnel, will direct the day-to-day operations of Gane Energy. Northstar will maintain a close involvement with the new company and John Hagg, as President of Northstar will also be appointed Chairman of Gane Energy.

Dr. Norman Fischbuch, President of Gane Petroleum, is to be President and Chief Executive Officer of Gane Energy. Jack Lee, currently Vice-President and General Manager of Gane Petroleum is to be Gane Energy's Executive Vice-President.

Barry Dorin, Vice-President and

Manager, Canadian Oil and Gas Division with Northstar will be Senior Vice-President, Oil and Gas Operations with Gane Energy. Gay Turnquist will be Vice-President, Exploration for Gane Energy, a position he currently holds with Gane Petroleum.

In addition, Gane has the support of two senior project geologists as well as a full accounting and land department.

Exploration Philosophy

The Gane exploration staff under the direction of Dr. Norman Fischbuch, an established expert in carbonate geology, has completed more than twenty separate regional geological studies of areas ranging from the Northern United States, through Alberta and British Columbia to the Canadian Arctic.

Many of Gane's prospects flow from the vast amount of background data contained within these regional geological studies. The studies identify prospective regional trends from which specific petroleum and natural gas prospects are being developed. The prospects in general are of a high risk, high return nature.

The studies are not only the basis from which Gane generates its own plays but also are used to evaluate the technical merits of prospects brought to Gane by third parties.

EXPLORING FOR "NEW OIL" IN ALBERTA

The September 1, 1981 Federal/Provincial Energy Pricing Agreement has made it very attractive economically to discover "New Oil". This oil can be sold for approximately \$45 per barrel versus \$23.60 per barrel for previously discovered old oil of the same quality.

Through Gane's regional geological studies, several areas have been identified which are prospective for "New Oil". Gane is actively pursuing these prospects through land acquisition and seismic programs.

Due to the inherent high risk of new

oil prospects, it is Gane's intention to have a minimum of dollars invested in any one prospect. It is anticipated that the Company will acquire the land on these prospects and then have Industry partners take up a large portion of the financial obligation in return for a carried or royalty interest to Gane.

The **Golden-Lubicon-Slave area of Northern Alberta** continues to be one of the most active areas for oil exploration in Western Canada. The Company has participated in two wells in the area, has completed several hundred miles of seismic and has increased its land holdings to more than 22,000 gross acres. Several discoveries and new locations have been announced near Northstar/Gane acreage; however, no information is yet available on these wells. During 1982, the Company expects to participate in several wells in this area and is currently shooting an additional 140 miles of seismic.

At **Larne in Northwestern Alberta**,

the Company acquired a 100% interest in 11,680 gross acres based on the results of a regional geological study undertaken by Gane. The lands are partially within and directly adjacent to the Larne field which produces oil from the Muskey and Keg River formations. The Company has sold a 75% interest in this prospect in return for 75% of the costs expended to date plus 100% of a 40 mile \$250,000 seismic program. As well as the foregoing activity, a well has recently been licensed within one mile of our acreage.

At **Narrows in Northern Alberta**, Gane participated in the acquisition of 6,720 gross acres, prospective for Keg River, Slave Point and Gilwood oil, on trend with the Utikuma and Red Earth Keg River oil pools. This prospect was generated as part of a large regional study previously carried out by Gane. The Company initially had a 17.5% working interest, of which half was sold for cost plus 25% of Gane's share of the

costs associated with drilling the first well to casing point. Industry activity is quite high in the area with one well licensed within a mile of the acreage block. A Slave Point oil discovery, on trend and less than ten miles away, is reported to be on production at 100 barrels of oil per day. Current plans are to shoot a detailed seismic program prior to break-up in 1982 and to drill at least one well during next winter's drilling season.

Gane is also actively exploring for new oil in the **Glauconite channels of Southern Alberta**. The Company currently has an interest in three acreage blocks totalling 11,520 gross acres. Gane's interest varies from 4% to 25% in these lands. In the immediate area, Gane is participating in a regional seismic program. To date, in excess of 70 miles of detailed and regional seismic have been shot. Gane anticipates drilling at least three wells in 1982, testing the seismic features identified to date.



DRILLING ON CANADA LANDS

Northstar, through Gane Petroleum, qualifies for the highest level of grants available in the Federal Government's Petroleum Incentives Program (PIP). It is currently taking advantage of the 80% PIP grants for exploring on Canada Lands.

The Company has a 24% working interest in Paramount et al Big Island E-54, an estimated \$12 million project currently drilling in the Liard River area of the Northwest Territories immediately north of the B.C. border. Northstar is able to participate in an exploratory well of this cost because of the grants it will receive. A further attraction of the project was S & T Drilling's ability to obtain a one-year contract from the operator to drill the well.

The prospect, as mapped, has the potential of containing several hundred billion cubic feet of natural gas reserves. A discovery would dramatically increase Northstar's reserves. The prospect is unique in that it is on Canada Lands, but only fifteen miles from a pipeline at Pointed Mountain and production could commence much sooner than with most frontier prospects.

Drilling is expected to be finished by July of this year. The well will earn an interest in 32,488 acres and the Company can elect to drill a second well to earn an interest in an additional 31,488 acres.

NORTHSTAR PROPERTY SALE NETS \$4.9 MILLION

In January, 1982, Northstar completed the sale of its interest in one shut-in and two producing natural gas properties in Alberta for \$4.9 million cash. Proceeds were used to reduce the long-term debt of Northstar's Canadian oil and gas operation by more than 50%.

The properties were sold at an estimated discounted future cash flow of 20% before tax, representing a very attractive opportunity to Northstar in today's market.

As long as Northstar's public share

price remains at levels significantly below the underlying asset value, the prudent sale of assets will continue to be one of the most viable financing alternatives to the Company.

BONUS IN GANE DEAL

Northstar's main objective in pursuing the reorganization with Gane Petroleum was to strengthen its Canadian operation. A bonus to Northstar's shareholders is found in Gane's U.S. activities, principally in some of the Northern States, as well as in geological studies underway respecting certain Australian basins.

Gane's U.S. activities are geographically complimentary to the exploration efforts of Northstar Resources, Inc. which have been concentrated in the Gulf Coast States and along the West Coast.

Pennsylvania

Gane undertook three separate exploration programs in Pennsylvania during 1981. A total of 28 out of 29 wells were successfully drilled and completed as gas wells. The majority of the Company's production qualifies for the "tight sand" gas price which exceeds \$5 (U.S.) per thousand cubic feet. Current plans are to drill an additional eight wells in 1982. The 1982 projected cash flow to Gane Energy from this program is \$500,000 (Cdn.)

Kansas

In Central and West Kansas, Gane has acquired, through leasing, an average 20% interest in approximately 93,000 gross acres. In East Kansas, the Company is currently operating a seismic program as part of a seismic option to earn a 12.5% interest in up to 106,000 acres. Drilling activity to date has resulted in seven producing oil wells, one oil well awaiting tie-in and five dry holes.

Operations Review

Drilling

During 1981, Northstar participated

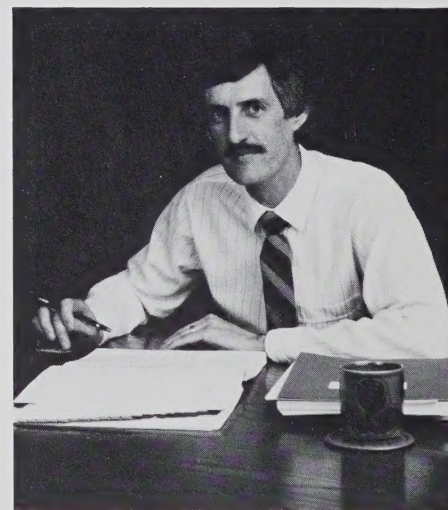
in the drilling of 85 wells, 52 of which were in the United States. This compares to only 10 U.S. wells in 1980. The average footage per gross well increased from 5,913 feet to 7,198 feet. This increase reflects Northstar's participation in plays which were deeper and additionally had more risk involved, both in Canada and the U.S.

Land

As of November 30, 1981, Northstar owned a working interest in the petroleum and natural gas rights in 705,149 gross acres in Canada and the United States. The Company's undeveloped land holdings were appraised at a replacement value of \$9,086,179 (Cdn.) as of year-end. It is projected that Northstar will have an interest in 920,541 gross acres with a current replacement value of \$13.8 million (Cdn.) after the reorganization with Gane and after acquiring the interests of each company's private partnerships.

Reserves

The Company's share of proven plus probable crude oil and liquids and natural gas reserves at November 30, 1981 were 747,400 barrels and 28,100 million cubic feet respectively. These reserves were



Barry Dorin, Senior Vice President, Oil and Gas Operations, Gane Energy.

determined by independent petroleum engineering consulting firms and are before the deduction of royalties. These reserves are net of the sale, for \$4.9 million, of three properties in Canada, completed in early 1982, and the sale of certain U.S. properties in exchange for shares of Integrated Energy, a publicly traded U.S. oil company.

During 1981 Northstar participated in the drilling of the largest reserve potential well in the Company's history in the Simonette area of West Central Alberta. The well, Dome Simonette 6-21-62-26 W5M has been assigned gross reserves, from the Gething and Peace River zones, in excess of 25 billion cubic feet. This one well represents 10.8% of Northstar's total reserves.

It is projected that Northstar's

reserves will increase to 945,600 barrels and 51,400 million cubic feet after the reorganization with Gane and the acquisition of the interests of each company's private partnerships.

Production

At November 30, 1981, Northstar had an interest in 81 producing oil wells and 17 producing gas wells. This is a significant increase over last year and primarily reflects the

acquisition of Allegro Petroleum's production as well as the Company's aggressive U.S. drilling program in 1981. Northstar's production of crude oil and liquids, before royalty, increased to 79,400 barrels from 24,600 barrels in 1980. Similarly, the Company's working interest gas production, before royalty, was 654 million cubic feet compared with 485 million cubic feet in 1980.

Reserves and Value

November 30, 1981 ⁽¹⁾

Crude Oil (Bbls.)	747,400
Natural Gas (MMcf)	28,100
Undiscounted Value (\$ Cdn.)	115,140,000
15% Present Value (\$ Cdn.)	27,700,000

Projected for May 31, 1982 ^{(1) (2)}

Crude Oil (Bbls.)	945,600
Natural Gas (MMcf)	51,400
Undiscounted Value (\$ Cdn.)	219,500,000
15% Present Value (\$ Cdn.)	53,500,000

(1) Reserves before the deduction of royalties and after the \$4.9 million sale of properties by Northstar.

(2) Includes reserves of Gane Energy after the reorganization.

Production

(Before Deducting Royalties)

	1981		1980	
	Bbls	Bbls/d	Bbls	Bbls/d
Crude Oil and Liquids	79,400	218	24,600	67
	MMcf	Mcf/d	MMcf	Mcf/d
	654	1,800	485	1,330
Natural Gas				

Land Holdings

November 30, 1981

	CANADA	U.S.A.	TOTAL
Gross Acres	470,574	234,575	705,149
Net Acres	82,782	44,713	127,495

Projected for May 31, 1982 ⁽¹⁾

	CANADA	U.S.A.	TOTAL
Gross Acres	573,500	347,000	920,500
Net Acres	125,200	66,100	191,300

(1) Includes land holdings of Gane Energy after the reorganization.

Drilling Activity

	1981	1980
CANADA		
Oil	5	10
Gas	17	15
Dry	11	27
UNITED STATES		
Oil	29	6
Gas	8	2
Dry	15	2
TOTAL WELLS	85	62

U.S. EXPLORATION OVERVIEW 1981

Northstar expanded its exploration effort significantly in the United States in 1981, with U.S. drilling representing over 60% of the Company's drilling program.

The Company continued to explore along the Gulf Coast and Austin Chalk trends, and expanded

significantly into Oklahoma, south central Colorado, and central California. The Company is currently pursuing geological leads in north Texas, northern California and Washington.

Gulf Coast - Texas & Louisiana

Along the Texas and Louisiana Gulf Coast generally multiple objective

horizons are present for both oil and gas production. Three new Texas gas wells were completed and one discovery was made in Louisiana. Recently, Northstar's Bayou Boullion well in St. Martin Parish, Louisiana, was a successful gas discovery and an additional exploratory well will be drilled in the adjacent fault block to the south in 1982.



Austin Chalk

The southeast Texas Austin Chalk trend reached its drilling peak in mid 1981. During the year Northstar participated in twenty-five wells in the trend of which twenty-three are producing oil wells.

Generally speaking, increased drilling costs and falling oil prices have caused the economic viability of this area to deteriorate. Exceptions do exist, of which Northstar's Barker well is a prime example - Barker was completed in June of 1981, and averaged 500 BOPD through the end of the year.

At present the Company has an interest in 60 producing wells and holds in excess of 42,000 acres along the Chalk trend in seven counties. It is anticipated that an additional 10 wells will be drilled on company held acreage in 1982.

Oklahoma

In the past year Oklahoma

experienced an unprecedented increase in wildcat and development drilling in both deep wildcat basins and shallower lower risk geologic areas where generally multiple objective horizons are present between 7,000 and 10,000 feet subsurface. Northstar participated in two successful gas wells and a successful oil well along the Nemaha Ridge in 1981. Susequent to year end a third gas well was completed and additional Oklahoma drilling is certain in 1982.

Colorado

Northstar is currently exploring in frontier areas in south central Colorado and has filed an application for 175,000 acres in federal leases. Pending acquisition of these leases, Northstar will commence an exploratory program including satellite imagery, electric surveys, and subsurface methods for prospect identification. Exploration in this area has been limited to date

because of the complexity of the basin due to volcanism and large scale tectonic activity. Northstar believes this complexity can be successfully dealt with using new "state of the art" remote sensing techniques.

U.S. INDUSTRY ACTIVITY COOLS

Outlook for 1982

Exploration activity in the United States has begun to soften in recent months after a record year of frenzied drilling activity in 1981.

Conservation efforts, weakening world oil prices, investor tax law changes in the U.S., and a generally stagnant economy are all contributing factors to the cautious mood that has crept into the industry. Many people are simply holding back on new commitments, perhaps waiting to be able to project the future a little more clearly.

Northstar View

We share this cautious outlook in the overall sense and believe that intelligent reassessment of industry conditions related to Northstar's corporate goals will lead us down the right road for our company in 1982 and beyond.

Quite simply, we are optimistic about the outlook for the U.S. oil and gas industry over the longer term. Certainly, equity markets are not going to recover overnight. As well, joint venture capital sources will remain sluggish this year. Nevertheless, billions of dollars will continue to be expended in the search for new oil and gas reserves and there is always a shortage in the industry of high quality exploration opportunities.

At Northstar, we believe that we are successfully developing some of these concepts into major projects. Certainly, we will continue to explore, lease, and drill in established basins where the



Don Lehto, President and Jack Gourley, Jr., Vice President, Land, Northstar Resources, Inc.

prospects are usually confined to small geographic areas. However, an increasing emphasis will be made to acquire substantial lease blocks in basins which remain relatively underexplored.

Our Salinas Valley project is a primary example of our intended future thrust. Sophisticated exploration techniques, including the use of satellite imagery, have contributed to the development of

this significant project. We expect these techniques will be useful in other major projects.

SALINAS VALLEY PROJECT FOR SALE

The Company now has a 20% working interest in close to 180,000 gross acres in this onshore central California play. Negotiations respecting the sale of 70% of the project are now at the serious level with three major oil companies.

The project has taken close to two years to develop from the conceptual stage, through numerous sophisticated technical evaluations, to lease acquisition, and, finally, to the point of ultimate sale. In addition, we have had help along the way. Last summer's California offshore sale attracted \$2.3 billion (U.S.) in bonuses for what we believe are similar features in the Salinas Basin, as seen in the offshore. Recent activity in the Basin has been on the upsurge with Phillips and Texaco being prominent - in fact, Texaco has discovered the first commercial light gravity oil in the Basin only a few days prior to the printing of this report.

In the event that the sale is completed, Northstar anticipates substantial cash proceeds to the company of several million dollars. In addition, the proposed sale involves a commitment by the purchaser to "carry" Northstar and its partners through the next two years of a major seismic and exploratory drilling program.

DORSET JOINT VENTURE

In the spring of 1981 Northstar was involved in the start-up of a new Calgary-based exploration company Dorset Resources Limited. Northstar subscribed for 5% of an initial public common share issue that raised \$15.6 million for Dorset in June, 1981.

In what was a difficult equity market, this successful issue was a tribute to the credibility of Al Smith,

Dorset's President, and the hard work of the investment houses involved, led by F. H. Deacon, Hodgeson Inc.

Subsequently, Northstar expended approximately \$5 million under the terms of a joint venture agreement with Dorset through the end of 1981. That agreement, which provided for an expenditure of approximately \$11 million by Dorset with Northstar over two years, has been modified at Dorset's request.

Conditions in the oil and gas industry and capital markets have changed dramatically since the initial joint venture was undertaken. As a result, Northstar has agreed to temporarily suspend direct exploration expenditures on new prospects for the year 1982, to allow time to identify alternative investments for the remaining Dorset commitment.

NORTHGANE MINERALS NEW OPERATION

In early 1981 Northstar and Gane jointly sponsored the start-up of a minerals exploration company, Northgane Minerals Ltd. Northstar owns 46.5% of the issued preferred shares of Northgane with the balance being owned by Gane Petroleum and the new company's senior management.

The general manager, Gerry Klein, is a mining geologist with more than fifteen years' experience in the Canadian mining industry. He is directing Northgane's activities from Prince George, British Columbia, close to the grass roots prospecting sources in the industry.

In its brief history, Northgane has acquired options or claims on four prospects with future potential for mine development. Falling mineral prices have created new opportunities and Northgane is pursuing a strategy of tying up prospects requiring only minimal financial commitments in the immediate future thus hoping to gain maximum leverage from these situations when the metals market improves.

S&T Drilling in Perspective

S & T Drilling is one of the longest established private drilling companies in Canada. The company was founded in 1952 by two eastern Canadian investors, Salter and Tinker, and the company was appropriately named S & T. Subsequently, S & T was purchased by Bumper Petroleum in the early 1960's and it was run under the general management of Jim Davidson for many years. Mr. Davidson bought the company in 1975 and built S & T to a twelve-rig operation before selling control to Northstar in January, 1981.

Today, S & T operates a total of sixteen rigs. From its home base in Edmonton it has established offices in Oklahoma City and Adelaide, Australia during the past year. S & T employs about 350 people world wide most of whom are involved in the direct operation of the drilling equipment.



S & T's Rig #10

Canadian Operations

At the company's home base, in the Nisku Industrial Park 15 miles from downtown Edmonton, S & T maintains a major drilling yard, shop and warehouse facility. At year end, S & T owned seven rigs located in Alberta and on a lease arrangement managed one additional rig in the Northwest Territories. This was a sharp reduction from eleven rigs owned in Alberta at the start of 1981 and reflects the dramatic downturn in industry activity in Canada following the imposition of the National Energy Program. To suit the requirements of the Canadian market the rigs remaining in Canada are capable generally of drilling to depths of 7 - 10,000 ft.

United States Operations

Early in 1981, the company established a U.S. base in Oklahoma City, the heart of one of the most active drilling markets in the United States in terms of geographical concentration of rigs.

Four rigs, all capable of drilling to depths of 12,000 feet or deeper, were moved to Oklahoma about mid-year. Since that time, working for large independent operators in

reasonable proximity to Oklahoma City, these rigs have been working at close to 100% capacity.

S & T now has a strong U.S. business operated by experienced drilling personnel.

Australian Operations

In competition with nine other drilling contractors, in September of 1981 S & T was awarded a major contract by Santos Limited, one of Australia's largest exploration companies. Within five months three new rigs were custom ordered, assembled in Canada by S & T, shipped to Australia, and put to work in the interior desert regions of the Cooper Basin. Bill Parsons, S & T's Canadian General Manager and his counterpart in Australia, Frank Mosely, deserve recognition for establishing this operation in such short order.

In addition to these three rigs, the Company manages a fourth rig operating in the Surat Basin for private Canadian owners. S & T Drilling owns 35.35% of S & T Australia in partnership with majority Australian owners Leighton Mining (controlled by well-known Australian businessman Alan Bond).

S & T Drilling — Rig Inventory

RIG EQUIPMENT	DRILLING DEPTH	LOCATION
# 1 National 55	12,000'	Oklahoma
# 2 National T-32	7,000'	Alberta
# 3 National 55	12,500'	Alberta
# 4 National 50CA	8,500'	Alberta
# 5 National 50A	10,000'	Alberta
# 6 National 610	12,500'	Oklahoma
# 7 National T-45	10,000'	Alberta
# 8 National 610	13,000'	Oklahoma
# 9 National 370	9,000'	Alberta
#10 Unit 34	6,500'	Alberta
#11 Unit 20	15,000'	Oklahoma
#12 National 370	10,000'	Rig For Sale
#14 National 610E	12,500'	Cooper Basin (Australia)
#16 Ideco 900E	16,000'	Cooper Basin (Australia)
#17 National 610	12,500'	Cooper Basin (Australia)
#21* TSM 6000	8,500'	Surat Basin (Australia)
#85* Oime 750SL	12,000'	Northwest Territories

*Managed but not owned by S & T.



INDUSTRY OUTLOOK 1982

The contract drilling business is extremely cyclical. It is characterized by shortages and surpluses of drilling equipment.

At present a record number of available rigs coupled with falling demand have created an overall downturn in the industry. Generally tight capital markets and falling world oil prices are the major contributors to this problem.

Under the circumstances, Northstar must reconsider its position in the contract drilling business. Certainly we are fortunate to have an interest in a well-established company that is

outperforming its competition in every market in which it is operating. Nevertheless, S & T is carrying a significant debt load and we believe it is only prudent to seek an injection of equity into the company.

It is likely, therefore, that Northstar's interest in S & T will be substantially diluted. In this regard, on December 23, 1981, Northstar entered into an option agreement with S & T's largest minority shareholder to sell most of Northstar's equity in S & T in order to facilitate an overall refinancing of the company. Although this agreement has now expired, negotiations are continuing to bring new equity into S & T.

Drilling Rig Activity in Canada

	Rig Utilization*		Total Number of Rigs	
	Industry	S. & T.	Industry	S. & T.
1981 January	76.6%	78.6%	515	11
February	81.6%	74.7%	505	11
March	62.4%	85.6%	497	11
April	31.0%	59.4%	479	11
May	39.0%	38.7%	461	9
June	46.2%	51.3%	457	8
July	48.3%	37.5%	449	8
August	49.4%	63.7%	441	8
September	48.6%	75.0%	434	7
October	49.2%	39.5%	430	7
November	52.9%	21.4%	415	7
December	53.7%	57.4%	428	8
1982 January	64.6%	72.2%	428	8
February	72.8%	88.4%	431	8

*Total rig days of drilling as a percentage of total rig days available.

Financial Review

On January 23, 1981 the Company acquired 65% of the outstanding shares of S & T Drilling (Northern) Ltd. and on February 11, 1981 the Company acquired all of the outstanding shares of Allegro Petroleum Inc. (now called Northstar Resources Inc.). The attached financial statements include the results of these two companies from the dates of acquisition.

The acquisition of S & T was financed through increased bank borrowings by S & T. The Allegro acquisition was financed through the issue of 999,991 common shares at \$8.00 per share of the Company.

The acquisition of these two companies has had a considerable effect on the assets, liabilities and earnings of Northstar. Total assets are now \$73.6 million compared to \$20.6 million a year ago and gross revenue was \$22.9 million in 1981 compared to \$1.8 million in 1980. Long term debt on Northstar's balance sheet increased by more than \$20 million as a result of the acquisition of S & T. However, this increased liability is the responsibility of S & T with Northstar only contingently liable for a \$2.6 million bank guarantee.

Cash flow from operations increased 190% to \$2,411,799 or 35¢ per share from \$829,243 or 13¢ per share in 1980. However, the combination of high interest rates which continue to remain at unprecedented levels, the lack of investment gains in the current year, deferred income taxes and increased depletion and depreciation charges, have resulted in a loss for the current year of \$293,427 or 10¢ per share down from earnings of \$524,510 or 8¢ per share in 1980.

Revenues

Oil and gas revenue after royalties and Petroleum and Gas Revenue tax increased to \$2,580,363 from \$1,116,716; an increase of 131%. The increase is primarily due to the inclusion of revenues from Northstar Resources Inc. totalling \$1,213,067. Lack of gas markets continues to restrict potential earnings in Canada.

Drilling contract revenue earned by S & T totalled \$18,963,762 for the nine months included in these financial statements. Of this revenue \$3,773,659 was attributable to U.S. operations where three rigs were operating during the latter part of 1981. It is anticipated that four rigs will be operating in the U.S. throughout 1982.

Management fees received by Northstar in 1981 increased by 106% to \$1,031,005. Such fees were received to offset overheads incurred in developing prospects and managing the ongoing operations of various joint ventures and public and private partnerships administered by Northstar. Significant management fees were received by the Company with regard to a joint venture entered into with Dorset Resources Ltd., a company which was formed by Northstar and taken public with initial share capital subscriptions in excess of \$15,000,000.

Expenses

Expenses related to oil and gas production including depreciation and depletion amounted to \$1,698,942 in 1981 compared to \$603,981 in 1980. This 181% increase is primarily due to the depletion of the purchase price on the acquisition of Allegro Petroleum Inc.

Total operating expenses attributable to the drilling division amounted to \$12,703,062 including depreciation of \$1,137,639. The depreciation charge is based on the acquisition

cost of S & T rather than the historical cost of the underlying fixed assets.

Interest on long term debt increased significantly in 1981 to \$4,019,478. The increase is largely attributable to the term loan of \$19.5 million partially incurred to finance the acquisition of S & T and also to the high rates of interest in effect during the year.

Share Capital

During 1981 several important share capital issues took place. An issue of 500,000 10% cumulative redeemable convertible first preferred shares, series A with a par value of \$10 a share was fully subscribed, with total proceeds before expenses of the issue totalling 5 million. In addition, 999,991 common shares of the company were issued in consideration for the acquisition of Allegro Petroleum Inc. for an amount of \$7,999,928. A further 18,520 common shares were issued on the exercise of share purchase warrants for \$123,656. All unexercised warrants have now expired.

Capital Expenditures

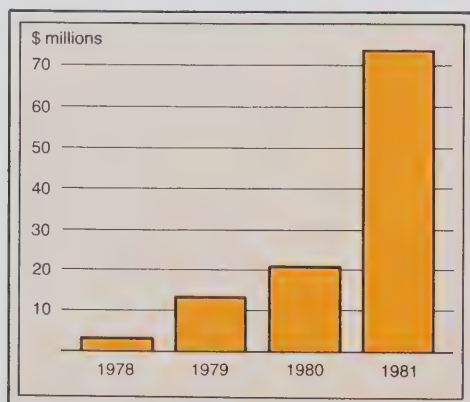
During the year the Company expended \$6,855,239 on the acquisition of property, plant and equipment in the United States and Canada. Canadian resource acquisitions and related exploration, development and associated costs accounted for \$3,370,536; drilling equipment additions were \$906,497 and \$2,578,206 was spent by Northstar Resources Inc.

Outlook for 1982

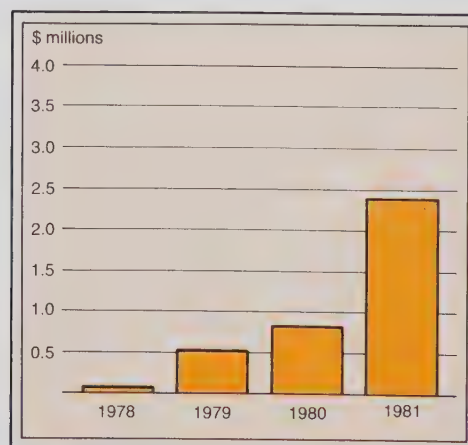
In 1982 the Company intends to reduce its outstanding debt and interest charges, reduce its overhead expenses and limit capital expenditures to those areas which will generate immediate cash flows. To this end the Company has sold three properties for a total consideration of \$4,900,000; (the proceeds of sale have been applied against the Canadian production loan) and announced plans to amalgamate its Canadian oil and gas division with that of Gane Petroleum Corporation Ltd., thus creating a more cost efficient organization.

On March 31, 1982, the Company announced that it had issued 2,000,000 common shares out of Treasury at \$3 per share to GLN Investments Limited. Northstar has acquired 20% of the outstanding common shares and junior preferred shares of GLN Investments Limited for a consideration of \$6,000,000. The remaining 80% of GLN Investments is owned by Great Lakes Power Investments Limited, one of the Brascan group of companies.

In accordance with the provisions attaching to the 10% cumulative redeemable convertible preferred shares, series A, an issue of Treasury shares effects the conversion price at which the preferred shares may be exchanged for common shares. The conversion price of \$8.25, in accordance with the provisions is adjusted to \$6.96.



Assets - Book Value
(in millions of dollars)



Cash Flow From Operations
(in millions of dollars)

Consolidated Balance Sheet

November 30

ASSETS

Current assets:

	1981	1980
Cash	\$ 772,024	150,852
Accounts receivable	10,793,244	1,874,444
Inventory	1,004,504	—
Rigs under construction (Note 14)	1,675,308	—
Marketable securities (quoted market value \$470,497)	458,496	42,900
Prepaid expenses	189,991	9,198
Due from limited partnerships (Note 3)	203,157	624,758
	<u>15,096,724</u>	<u>2,702,152</u>
Investments—at cost (Note 4)	2,140,217	835,107
Property, plant and equipment—oil and gas (net) (Note 5)	28,792,876	16,926,936
Property, plant and equipment—drilling (net) (Note 6)	27,158,083	—
Deferred income taxes	—	149,000
Other—at cost	—	23,900
Organization costs	434,813	—
	<u>\$73,622,713</u>	<u>20,637,095</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Bank loans (Note 7)	\$ 4,250,000	316,500
Accounts payable and accrued liabilities	8,890,993	3,159,706
Advances from limited partnerships	392,281	938,754
Advances from joint venture partners	2,085,528	136,656
Current portion of long-term debt—oil and gas (Note 8)	732,674	446,830
Current portion of long-term debt—drilling (Note 9)	1,496,028	—
	<u>17,847,504</u>	<u>4,998,446</u>
Deferred revenue	675,518	171,321
Long-term debt—oil and gas (Note 8)	6,991,268	5,519,772
Long-term debt—drilling (Note 9)	21,753,972	—
Deferred income taxes	3,241,735	—
Minority interest	643,999	—
Shareholders' equity:		
Share capital (Note 11)	22,418,343	9,294,759
Retained earnings	50,374	652,797
Commitments (Note 14)	22,468,717	9,947,556
	<u>\$73,622,713</u>	<u>20,637,095</u>

On behalf of the Board:

John A. Hagg, Director

Michael M. Kanovsky, Director

The accompanying notes are an integral part of these financial statements

Consolidated Statement of Earnings

Year ended November 30

	1981	1980
Revenue:		
Oil and gas—net	\$ 2,580,363	1,116,716
Drilling contracts	18,963,762	—
Management fees	1,031,005	500,441
Interest and other	<u>384,435</u>	<u>172,075</u>
	<u>22,959,565</u>	<u>1,789,232</u>
Expenses:		
Operating—oil and gas	484,173	150,248
Operating—drilling	11,565,423	—
General and administrative	3,586,156	499,161
Interest—long-term debt	4,019,478	400,583
Interest—other	675,691	223,617
Depreciation	1,322,943	71,501
Depletion	<u>1,029,465</u>	<u>382,232</u>
	<u>22,683,329</u>	<u>1,727,342</u>
Earnings before the following	276,236	61,890
Investment income:		
Gain on disposal of shares	1,629	842,719
Carrying charges net of dividend	<u>—</u>	<u>593,507</u>
	<u>1,629</u>	<u>249,212</u>
Earnings before income taxes and minority interest	277,865	311,102
Income taxes (Note 10):		
Current	306,301	—
Deferred	235,992	(149,000)
Alberta Royalty Tax Credit	<u>(90,000)</u>	<u>(64,408)</u>
	<u>452,293</u>	<u>(213,408)</u>
Earnings (loss) before minority interest	(174,428)	524,510
Minority interest	<u>118,999</u>	<u>—</u>
Net earnings (loss)	<u>\$ (293,427)</u>	<u>524,510</u>
Per common share	<u>\$ (0.10)</u>	<u>0.08</u>

Consolidated Statement of Retained Earnings

Year ended November 30

	1981	1980
Retained earnings, beginning of year	\$ 652,797	247,440
Net earnings (loss)	(293,427)	524,510
Less preferred share dividends	<u>(308,996)</u>	<u>(119,153)</u>
Retained earnings, end of year	<u>\$ 50,374</u>	<u>652,797</u>

The accompanying notes are an integral part of these financial statements

Consolidated Statement of Cash Flow from Operations

Year ended November 30

	1981	1980
Net earnings (loss)	\$ (293,427)	524,510
Add non-cash items:		
Depreciation	1,322,943	71,501
Depletion	1,029,465	382,232
Deferred income taxes	235,992	(149,000)
Minority interest	118,999	—
Other	(2,173)	—
Cash flow from operations	<u>\$2,411,799</u>	<u>829,243</u>
Per common share	<u>\$ 0.35</u>	<u>0.13</u>

Consolidated Statement of Changes in Financial Position

Year ended November 30

	1981	1980
Source of funds:		
Cash flow from operations	\$ 2,411,799	829,243
Proceeds on issue of share capital	13,123,584	3,752,711
Decrease in other assets	23,900	3,200
Deferred revenue	504,197	171,157
Transfer of resource properties	—	718,321
Proceeds on issue of long-term debt	17,617,744	2,310,447
Proceeds on disposal of assets	45,750	—
	<u>33,726,974</u>	<u>7,785,079</u>
Application of funds:		
Acquisition of S&T Drilling (Northern) Ltd. less working capital obtained of \$933,934 (Note 1)	15,566,066	—
Acquisition of Allegro Petroleum Inc. plus working capital deficiency assumed of \$88,172 (Note 1)	8,088,100	—
Purchase of property, plant and equipment	6,855,239	8,262,597
Purchase of investments	1,035,970	719,907
Repayment of long-term debt	1,892,276	384,984
Preferred share dividends	308,996	119,153
Organization costs	434,813	—
Increase in other assets	—	121,600
	<u>34,181,460</u>	<u>9,608,241</u>
Increase in working capital deficiency	454,486	1,823,162
Working capital deficiency, beginning of year	<u>2,296,294</u>	<u>473,132</u>
Working capital deficiency, end of year	<u>\$ 2,750,780</u>	<u>2,296,294</u>

The accompanying notes are an integral part of these financial statements.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Northstar Resources Ltd. as at November 30, 1981 and the consolidated statements of earnings, retained earnings, changes in financial position and cash flow from operations for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at November 30, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada

March 24, 1982 - (except for note 18(c) for which the date is March 31, 1982)

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Notes to Consolidated Financial Statements

November 30, 1981

1. Acquisitions:

The Company acquired, effective January 23, 1981, 65% of the common shares of S&T Drilling (Northern) Ltd. (a corporation providing contract drilling services to the oil and gas industry). Accordingly, its results of operations are included from the effective acquisition date. The acquisition, accounted for as a purchase, was financed by the issuance of long-term debt. The purchase price of \$16,500,000 was allocated to the net assets acquired as follows:

Working capital	\$ 933,934	
Property, plant and equipment—drilling . . .	26,476,669	
Investments	269,140	
	<u>27,679,743</u>	
Long-term debt	\$7,500,000	
Deferred income taxes	3,154,743	
Minority interest	525,000	11,179,743
	<u>\$16,500,000</u>	

The Company acquired, effective February 11, 1981, all of the common shares of Allegro Petroleum Inc. (an oil and gas exploration and development corporation based in Houston, Texas). Accordingly, its results of operations are included from the effective acquisition date. The acquisition, accounted for as a purchase, was financed by the issuance of 999,991 common shares of the Company for an amount of \$7,999,928. The purchase price was allocated to the net assets acquired as follows:

Property, plant and equipment—oil and gas	\$ 8,088,100	
Working capital deficiency	88,172	
	<u>\$ 7,999,928</u>	

2. Significant accounting policies:

a) Principles of consolidation:

The consolidated financial statements include the accounts of Northstar Resources Ltd. and its subsidiaries Northstar Resources Inc. and Rathtron Resources Ltd. as of November 30, 1981 and the accounts of S&T Drilling (Northern) Ltd. as of October 31, 1981.

The excess of the consideration paid for the shares of subsidiaries over the underlying net book values at the dates of acquisition is attributed to the related assets acquired.

b) Oil and gas exploration and development expenditures:

The Company follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and development of oil and gas reserves in North America are capitalized. These costs include leasehold acquisition costs, geological and geophysical expenses, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells, oil and gas field production equipment, gathering lines, compressors and gas plants and interest and overhead expenses related to exploration activities. The costs, together with future capital costs associated with proven reserves are depreciated and depleted on the unit-of-production method, based on estimated proven recoverable reserves as determined by independent engineers. Proceeds on minor property sales are credited to the net book value of property and equipment without recognizing any gain or loss on disposition. Gains or losses on major property sales are recognized in the statement of earnings.

c) Joint venture accounting:

Substantially all of the Company's oil and gas exploration and production activities are conducted jointly with others and accordingly the statements reflect only the Company's proportionate interest in such activities.

d) Fixed assets—drilling:

The Company capitalizes all additions to fixed assets. Replacement of drilling equipment and pipe repair items are written off to expense as incurred.

e) Depreciation:

Oil and gas segment:

Depreciation, on other than production equipment, is provided using the declining balance method at the following rates:

Automobiles	30%
Furniture and fixtures	20%
Building	5%

Drilling segment:

Depreciation of drilling equipment and pipe is provided based upon operating days at daily rates estimated to reduce the net book value of the assets to salvage value at the end of their useful lives.

Depreciation of other fixed assets is provided for at the following annual rates:

Camp equipment	10% straight line
Automotive equipment	30% straight line (to estimated salvage value)
Office furniture	20% reducing balance
Buildings	5% straight line

- f) Foreign currencies:
The accounts of the foreign branch and subsidiaries are translated into Canadian dollars on the following basis:
- current assets and liabilities at the rate of exchange at balance sheet date;
 - all other assets, applicable depreciation and depletion, and non-current liabilities at rates prevailing when the assets were acquired or the liabilities incurred;
 - revenue and expenses, except depreciation and depletion, at the average rate in effect during the year.
- Gains or losses on foreign exchange are recognized in the statement of earnings.
- g) Investment tax credit:
The investment tax credit relating to the purchase of new assets is credited to the appropriate fixed asset in the year it is applied to reduce the taxes payable.
- h) Drilling revenue recognition:
Revenue is recognized as earned, either on a per day basis or by depth drilled.
- i) Inventory:
Inventory is valued at the lower of cost or replacement value.
- j) Earnings per share:
Earnings per common share have been calculated using the weighted average number of common shares outstanding during the year.
- k) Deferred revenue:
Payments received for undelivered gas are deferred and are recognized as revenue when deliveries are made or on expiry of the period allowed for such deliveries.

Management fees received for operating certain joint ventures are deferred and are recognized over the estimated duration of the joint ventures.

- l) Associated company:
The investment in associated company is accounted for under the equity basis which for 1981 equals cost.
- m) Petroleum incentive program grants:
Grants under the Canadian government's petroleum incentive program are accrued in accordance with the proposed regulations and treated as a reduction in the cost of the related property, plant and equipment account. The legislation and regulations in respect of this program have not been enacted by Parliament.

3. Due from limited partnerships:

Due from limited partnerships relates to partnerships for which the Company acts as general partner.

4. Investments:

Investments are comprised of:

	1981	1980
Marketable securities		
(market value \$1,808,378)	\$1,470,431	719,907
Advance to joint venture	139,182	—
Limited partnerships	160,214	115,200
Associated company	116,250	—
Other securities	254,140	—
	<u>\$2,140,217</u>	<u>835,107</u>

Included in marketable securities are investments having a cost of \$401,222 which are held in escrow and therefore cannot be disposed of without regulatory approval.

5. Property, plant and equipment – oil and gas:

	1981		1980
	Cost	Accumulated Depreciation and Depletion	Net Book Value
Petroleum and natural gas leases and rights together with exploration and development thereon	\$30,057,307	1,770,508	28,286,799
Automobiles	248,627	86,386	162,241
Other	473,161	129,325	343,836
	<u>\$30,779,095</u>	<u>1,986,219</u>	<u>28,792,876</u>
			<u>16,926,936</u>

6. Property, plant and equipment – drilling:

	1981		1980
	Cost	Accumulated Depreciation	Net Book Value
Drilling equipment and pipe	\$24,373,812	1,055,970	23,317,842
Rig under construction	1,948,002	—	1,948,002
Camp equipment	398,508	120,096	278,412
Automotive equipment	59,056	32,758	26,298
Office furniture and fixtures	76,483	35,434	41,049
Building	996,051	49,571	946,480
Land	600,000	—	600,000
	<u>\$28,451,912</u>	<u>1,293,829</u>	<u>27,158,083</u>
			<u>—</u>

7. Bank loans:

	1981	1980
Oil and gas segment:		
Revolving loan	\$1,500,000	316,500
Demand interim loan	800,000	—
	<u>2,300,000</u>	<u>316,500</u>
Drilling segment:		
Operating loan	1,950,000	—
Total	<u>\$4,250,000</u>	<u>316,500</u>

The revolving loan is secured by a general assignment of accounts receivable and by the hypothecation of and pledge of certain marketable securities. The demand interim loan is secured by a floating charge over all of the assets of the Company second only to the secured debenture referred to in Note 8.

The operating loan, together with the term loan referred to in Note 9, are secured by accounts receivable, a demand debenture representing a first fixed and floating charge over all assets, including a first mortgage over drilling rigs costing \$21,488,638, land and buildings, guarantee bonds and postponement of claim by certain shareholders of a subsidiary not to exceed \$3,000,000 and assignment of specified contracts covering drilling rigs.

8. Long-term debt – oil and gas:

	1981	1980
Production loan – Canada	\$6,137,290	5,362,116
Production loan – U.S.	1,230,724	—
Secured debenture (U.S. 1981 – \$250,000; 1980 – \$450,000)	298,350	536,490
12% promissory notes	—	7,500
9½% mortgage payable	57,578	60,496
	<u>7,723,942</u>	<u>5,966,602</u>
Less current portion	<u>732,674</u>	<u>446,830</u>
	<u>\$6,991,268</u>	<u>5,519,772</u>

9. Long-term debt – drilling:

	1981	1980
Term loan	\$19,500,000	—
Mortgage payable	1,750,000	—
Note payable	2,000,000	—
	<u>23,250,000</u>	<u>—</u>
Less current portion	<u>1,496,028</u>	<u>—</u>
	<u>\$21,753,972</u>	<u>—</u>

10. Income taxes:

The taxes provided differ from the amount that would have been expected if the reported pre-tax earnings were subject to the combined Federal and Provincial tax rates for the year. The principal reasons for the differences between such “expected” income tax provisions and the amounts actually provided were as follows:

	1981		1980	
	Amount	Percent of Pre-tax Earnings	Amount	Percent of Pre-tax Earnings
Computed “expected” income taxes	\$135,598	48.8	\$ 151,817	48.8
Increase (decrease) in income taxes resulting from:				
Non-deductibility of royalties and other payments to the Crown	173,321	62.4	121,220	39.0
Less related allowances and rebates:				
Federal	(60,643)	(21.8)	(124,322)	(40.0)
Provincial	(90,000)	(32.4)	(64,408)	(20.7)
	<u>158,276</u>	<u>57.0</u>	<u>84,307</u>	<u>27.1</u>
Non-deductible depletion	155,243	55.9	70,914	22.8
Non-deductible depreciation	231,561	83.3	—	—
Non-taxable dividends	—	—	(169,361)	(54.4)
Non-taxable portion of capital gains	—	—	(198,039)	(63.7)
Other	(92,787)	(33.4)	5,154	1.6
Share issue costs deductible for tax	—	—	(6,383)	(2.0)
	<u>\$452,293</u>	<u>162.8</u>	<u>\$(213,408)</u>	<u>(68.6)</u>

For the oil and gas segment, the Company has approximately \$16,000,000 of unapplied exploration and development deductions available for tax purposes at November 30, 1981. For the drilling segment, the Company has approximately \$8,500,000 of unapplied deductions available for tax purposes. These deductions may be applied in accordance with the provisions of the Income Tax Act.

11. Share capital:

a) Authorized and issued:

	1981	1980
First preferred shares, par value \$10 per share; authorized 10,000,000 shares issuable in one or more series; issued: 500,000 10% cumulative redeemable convertible Series A shares	\$ 5,000,000	—
Second preferred shares, par value \$10 per share; authorized 500,000 shares issuable in one or more series; issued: 40,000 8% cumulative redeemable Series A shares	400,000	400,000
issued: 139,058 8% cumulative redeemable Series B shares	1,390,580	1,390,580
Common shares, without nominal or par value; authorized 25,000,000 shares; issued: 6,144,956 shares (1980 – 5,126,445 shares)	<u>15,627,763</u>	<u>7,504,179</u>
	<u>\$22,418,343</u>	<u>9,294,759</u>

b) The changes in the share capital of the Company during the year were as follows:

	Number of Shares		Amount	
	Common	Preferred	Common	Preferred
Balance, November 30, 1980	5,126,445	179,058	\$ 7,504,179	1,790,580
Issued on exercise of share purchase warrants net of expenses	18,520	—	123,656	—
Issued in consideration for the acquisition of Allegro Petroleum Inc.	999,991	—	7,999,928	—
Issued for cash	—	500,000	—	5,000,000
Balance, November 30, 1981	<u>6,144,956</u>	<u>679,058</u>	<u>\$15,627,763</u>	<u>6,790,580</u>

The Canadian production loan bears interest at the Canadian prime rate plus 1¼% and is secured by production from certain Canadian petroleum and natural gas properties. Although the loan is a demand loan, the lender has agreed to accept payment out of future production. The U.S. production loan bears interest at the U.S. prime rate plus ½% and is secured by production from certain U.S. petroleum and natural gas properties. The debenture bears interest at U.S. prime plus 1½% and is repayable in January 1982. Security for the debenture is a floating charge on the undertakings, property and assets of the Company both present and future.

Repayment of long-term debt for the next five years is as follows:

1982 – \$732,674; 1983 – \$405,730; 1984 – \$348,841; 1985 – \$41,829 and 1986 – \$ nil.

The term loan which bears interest at the Canadian prime rate plus ¾%, is repayable over 6 years in increasing annual instalments and is secured as stated in Note 7. The mortgage payable was non-interest bearing and was due on November 6, 1981. It was refinanced subsequent to October 31, 1981 with a Canadian chartered bank to interest at ¾% over the bank's prime lending rate. The principal is repayable over 6 years in increasing annual instalments. The note is repayable in three annual instalments beginning January 23, 1982 and is non-interest bearing unless in default.

Repayment of long-term debt for the next five years is as follows: 1982 – \$1,496,028; 1983 – \$2,507,936; 1984 – \$3,519,842; 1985 – \$3,865,072 and 1986 – \$4,876,986.

12. Remuneration of directors and senior officers:

The aggregate remuneration paid to directors and senior officers of the Company for the year ended November 30, 1981 amounted to \$371,000 (1980 — \$336,000). No remuneration was paid to directors as such.

13. Stock options:

Under an employees' share purchase plan options to acquire up to 37,500 common shares of the Company have been granted to each of six senior employees of the Company. The options are exercisable as to one-fifth of the common shares annually on a cumulative basis commencing November 30, 1979. The exercise price per common share is \$1.67, \$2.33, \$2.67, \$3.00 and \$3.33 on November 30, 1979, 1980, 1981, 1982 and 1983 respectively. In addition share purchase plan options to acquire 40,000 common shares of the Company at a price of \$5.50 per share, 46,000 common shares of the Company at a price of \$6.00 per share, and 15,000 common shares of the Company at a price of \$6.50 per share, exercisable over a period of two years are outstanding.

Options outstanding at November 30, 1981 total 326,000 shares.

16. Geographic segments — oil and gas operations:

	Canada	United States	Total
Oil and gas revenue—net	\$ 1,367,296	1,213,067	2,580,363
Management fees	700,400	330,605	1,031,005
Interest and other	241,614	140,648	382,262
Total operating revenue	<u>2,309,310</u>	<u>1,684,320</u>	<u>3,993,630</u>
Operating expenses	360,419	123,754	484,173
Depletion and depreciation	585,162	629,607	1,214,769
General and administrative expenses	893,595	589,140	1,482,735
Total operating expenses	<u>1,839,176</u>	<u>1,342,501</u>	<u>3,181,677</u>
Earnings before the following	<u>\$ 470,134</u>	<u>341,819</u>	<u>811,953</u>
Interest expense			(1,041,233)
Investment income			1,029
Income taxes			186,580
Net loss			<u>\$ 641,071</u>
Identifiable assets	<u>\$25,561,879</u>	<u>12,075,514</u>	<u>37,637,393</u>

For the year ended November 30, 1980, the Company principally operated in Canada.

17. Geographic segments — drilling operations:

During the summer the Company moved three of its rigs to the state of Oklahoma in the United States of America and since that time they have been operating there.

A breakdown of the operations and identifiable assets between Canada and the United States is as follows:

	Canada	United States	Total
Drilling contract revenue	\$15,190,103	3,773,659	18,963,762
Operating expenses	<u>9,880,537</u>	<u>2,822,525</u>	<u>12,703,062</u>
Gross profit from drilling operations	5,309,566	951,134	6,260,700
General and administrative expenses	<u>1,486,975</u>	<u>616,446</u>	<u>2,103,421</u>
Operating income	3,822,591	334,688	4,157,279
Other	2,173	—	2,173
Earnings before the following	<u>\$ 3,824,764</u>	<u>334,688</u>	<u>4,159,452</u>
Interest expense			(3,053,936)
Income taxes			(638,873)
Minority interest			(118,999)
Net earnings			<u>\$ 347,644</u>
Identifiable assets	<u>\$27,739,710</u>	<u>8,202,129</u>	<u>35,941,839</u>

18. Subsequent events:

- On January 1, 1982 the Company disposed of certain petroleum and natural gas properties for an aggregate consideration of approximately \$4,900,000.
- On January 12, 1982 the Company entered into an agreement in principle to amalgamate its Canadian oil and gas division with Gane Petroleum Corporation Ltd. to form a new Canadian controlled oil and gas exploration company. The agreement, which is subject to certain conditions, rulings and approvals, involves the exchange of the Company's Canadian oil and gas assets for shares in the new company. Northstar Resources Ltd. is expected to own approximately 50% of the new company, through which it will undertake its future Canadian oil and gas activities.
- On March 31, 1982 the Company entered into agreements with Great Lakes Power Investments Limited ("Great Lakes") and GLN Investments Limited ("GLN"), both private companies, pursuant to which the Company issued to GLN 2,000,000 common shares for a cash consideration of \$6,000,000 and acquired 20% of the outstanding common and junior preferred shares of GLN for the same consideration. The remaining 80% is owned by Great Lakes.

14. Rig purchase commitments:

The Company currently has four rigs under construction. Three of these rigs, with costs incurred to October 31, 1981 of \$1,675,308 are being constructed for sale to the Australian joint venture in which the Company has a 35% interest. The total costs, including the cost of the three rigs, to be incurred for the joint venture are estimated to be \$21,000,000.

The fourth rig, with costs incurred to October 31, 1981 of \$1,948,002 has an estimated additional cost to complete of approximately \$1,850,000.

15. Comparative figures:

Certain 1980 comparative figures have been reclassified to conform with the current year's presentation.

CORPORATE INFORMATION

NORTHSTAR RESOURCES LTD.

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Telephone (403) 261-4830

Auditors

Peat, Marwick, Mitchell & Co.
Calgary, Alberta

Bankers

Continental Illinois Bank
Canadian Commercial Bank
Bank of Montreal

Legal Counsel

Bennett Jones
Calgary, Alberta

Registrar

The Canada Trust Company
Calgary, Alberta

Transfer Agent

The Canada Trust Company
Calgary, Alberta
Regina, Saskatchewan
Toronto, Ontario

Shares Listed

Canada - symbol NOS

The Toronto Stock Exchange
The Alberta Stock Exchange

United States - symbol NTHRF

Nasdaq

Officers

John A. Hagg
President

Michael M. Kanovsky
Executive Vice President

Richard W. Switzer
Senior Vice President,
Oil and Gas Operations

Anthea E. Lister
Treasurer

Bruce R. Libin
Secretary

Directors ¹

John W. Burrows, Calgary*†
President, Travacon Limited

John A. Hagg, Calgary*
President, Northstar Resources Ltd.

F. Warren Hurst, Toronto†
Vice-Chairman,
F.H. Deacon Hodgson, Inc.

Michael M. Kanovsky, Houston*†
Executive Vice President,
Northstar Resources Ltd.

Donald K. Lehto, Houston
President, Northstar Resources Inc.

C. Alan Smith, Calgary
President, Dorset Resources Ltd.

Richard W. Switzer, Calgary
Senior Vice President,
Northstar Resources Ltd.

¹ Please see page 4 for additional
directors to be nominated for
1982-83.

* Member of the Executive Committee

† Member of the Audit and
Compensation Committee

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Telephone (713) 654-9238

Officers

Donald K. Lehto
President

John C. Zura
Vice President, Exploration

Jack Gourley, Jr.
Vice President, Land

Lorraine L. Menough
Secretary-Treasurer

GLN Investments Ltd.

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(416) 363-9491

GANE PETROLEUM CORPORATION LTD.

(name being changed to
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Telephone (403) 233-8282

Officers

John A. Hagg
Chairman (Elect)

Norman Fischbuch
President and Chief
Executive Officer

Jack C. Lee
Executive Vice President
and Secretary

Barry P. Dorin
Senior Vice President,
Oil and Gas Operations

Gaylard R. Turnquist
Vice President, Exploration

Raymond Chan
Controller

S & T DRILLING (NORTHERN) LTD.

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Telephone (403) 955-7011

Officers

James W. Davidson
President

R. William Parsons
Vice President and General Manager

T.J. Price
Vice President and Treasurer

John Bubel
Controller

S & T Drilling Inc.

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S & T Drilling Australia PTY

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N. Adelaide, South Australia 5006

AR17

NORTHSTAR RESOURCES LTD. 2000 FORD TOWER, 633-6TH AVE SW CALGARY, ALBERTA T2P2Y5 TELEPHONE (403) 261-4840

October 28, 1981

Mr. Paul Taylor
Report on Business
The Globe & Mail
444 Front Street West
Toronto, Ontario
M5V 2S9

Dear Mr. Taylor:

In regards to your article, dated October 5, 1981, on Canadian oil companies participating in Australian drilling and exploration, I would like to take this opportunity to inform you that Northstar Resources Ltd. has become very active in Australia.

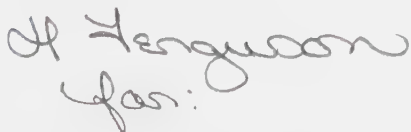
We currently have four rigs under contract, one of which is moving into the Surat Basin within the next few weeks. The remaining rigs (twelve thousand feet in depth) are being shipped over to Australia at the end of 1981, under contract for Santos Ltd., in the Cooper Basin. By early 1982, Northstar's Australian affiliate, S&T Australia Ltd. should be amongst the three largest international drilling contractors in Australia.

Our Australian affiliate is owned approximately 36% by our Canadian drilling company, S&T Drilling (Northern) Ltd., 14% by Platypus Oilfield Services Ltd., a U.K. based oil field operator, and 50% by Leighton Mining, an Australian based company controlled by the prominent Australian businessman, Alan Bond.

I have enclosed some general material on Northstar, and will put your name on our mailing list for future publications.

Yours truly,

NORTHSTAR RESOURCES LTD.



Michael M. Kanovsky
Executive Vice-President

Enclosure

THE NORTHSTAR REPORT

Second Quarter Report to Shareholders
For the Six Months ended May 31, 1981

Northstar's Future Looks Bright in the U.S.

Despite the severe downturn in Canadian oil and gas exploration, Northstar Resources is maintaining an aggressive stance by responding to more attractive opportunities in the United States.

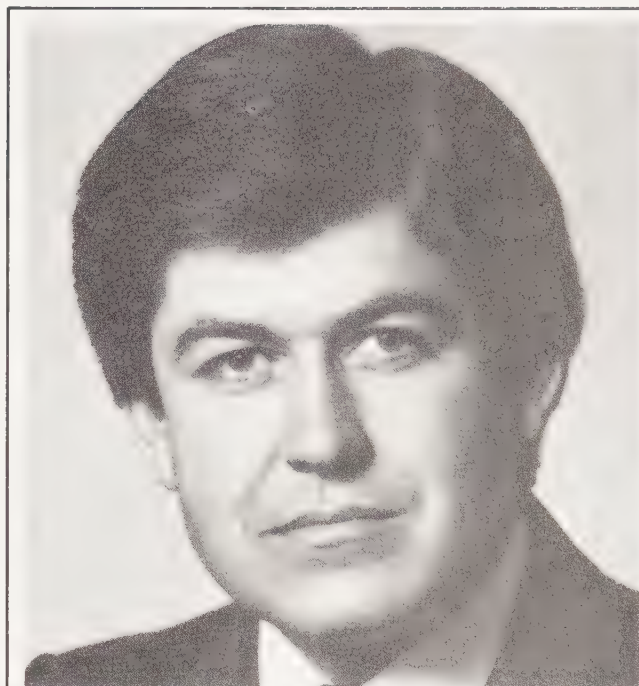
"Wellhead oil prices in the United States are about \$40 (Cdn.) per barrel as opposed to less than \$20 per barrel in Canada," says Northstar President, John Hagg. "Because of higher Canadian taxes and royalties, the producer in the United States more than triples the return available in Canada."

"NEP a Disastrous Example of Politics at its Worst"

Says Hagg, "The Canadian government's National Energy Program purports to be a coherent policy aimed at achieving energy self-sufficiency. Instead, it is a disastrous and frightening example of politics at its worst. The NEP is severely damaging energy development in Canada, it is harming Canadian exploration and service companies, and it will ultimately hurt all Canadians."

"In short, the NEP is an interventionist doctrine which will reduce economic activity throughout the country, further devalue the Canadian dollar and, ultimately, depress the standard of living for all Canadians. Canadians should be extremely alarmed about the implications of the National Energy Program."

In response to the NEP in Canada, Northstar has moved decisively during recent months to expand its U.S. exploration and drilling operations in order to establish a strong foundation on which to build the future of the Company.



"Northstar is moving aggressively to take full advantage of the opportunities available in the exploration and contract drilling fields in the United States," says Company President, John Hagg.

continued on page 2

Highlights for First Six Months of 1981

Total Assets	\$67,444,000.00
Revenues	\$11,040,000.00
Net Earnings	\$ 47,000.00
Cash Flow	\$ 1,405,000.00
Wells Drilled	47
Land Holdings (gross)	615,000 acres
Drilling Rigs	11
on order	3
Share Price-high	\$10.125
-low	\$ 6.375

During the first six months of 1981, Northstar participated in 25 wells in the United States, up from one a year ago. Plans for the next year call for close to 80 wells being drilled in the U.S., representing approximately 75% of the Company's overall exploration effort.

In the U.S., Northstar has been most active in the Austin Chalk trend of Texas where land holdings are in excess of 40,000 gross acres in seven counties. Northstar's working interest, together with that of its investor-partners, varies from 12½% to 60% in 50 producing oil and gas wells along the trend.

The wells generally produce the majority of their reserves in the first four years of production. Studies by independent petroleum engineers indicate that the wells have recoverable oil in excess of 100,000 barrels per well.

"We will continue to actively explore the Austin Chalk in 1981 and plan to shoot additional seismic, and drill at least 20 more wells this year," said Donald Lehto, President, Northstar Resources Inc.

Remote Sensing, a New Technique

Northstar is participating in an exciting exploration program utilizing state-of-the-art techniques, such as remote sensing, to augment conventional exploration methods. Combined with certain geochemical surveys, remote sensing may help to identify significant hydrocarbon deposits.

The Company has recognized the potential of establishing a position in California, an area in which there has been increasing industry activity. More than 20,000 acres have been acquired onshore in California in which Northstar has a 20% working interest. Prior to the commencement of drilling later this year, we expect that at least 100,000 acres will be leased on at least 20 separate prospects.

In eastern Michigan, Northstar has an 8.25% interest in over 25,000 acres acquired on five prospects as a direct result of this program. Other geological basins are currently being pursued on a similar basis.

Notes in Brief

Appointment. **David Scobie**, Chartered Accountant with a B.Comm. from Queen's University, and most recently Treasurer for Northstar, appointed Vice-President and Treasurer responsible for all financial operations of the Company's operating divisions.

Appointment. **Alan Smith**, most recently President of Brinco Oil & Gas, appointed President of Dorset Resources Ltd. and elected a Director of Northstar Resources Ltd.

Election. **John Hagg**, President of Northstar Resources, recently elected to the Board of Directors of the Independent Petroleum Association of Canada (IPAC). IPAC represents over 200 Canadian exploration companies and has been particularly active on behalf of the Canadian sector of the industry since the inception of the NEP in Canada.

Company formed. Northstar and Gane Petroleum Corporation each have a 46.5% interest in Northgane Minerals Ltd., a new minerals exploration company based in Prince George, British Columbia. **Gerry Klein**, a mining geologist with more than 15 years in the industry, has been appointed Vice-President, Exploration.

Agreement. S & T Drilling has agreed to sell two new rigs to Australian partners under a joint venture agreement for a rig operation based in Adelaide, Australia. Under the agreement, S & T will acquire an approximate 30% equity interest in the new venture at very little net cost to the Company. Operations are expected to commence early in 1982.

Annual Meeting. Northstar's annual shareholders' meeting was held in Calgary on May 28. Following the meeting, about 250 people attended a reception at the Petroleum Club to recognize the acquisition of S & T and Allegro.

Exploration Session. In conjunction with the annual meeting, geological consultants from Calgary; Houston; New Orleans; Lexington, Kentucky; and St. Helena, California, attended a two-day exploration session to develop a long-range corporate exploration strategy for Northstar.

FINANCIAL REPORT

Consolidated Statement of Earnings and Retained Earnings

For the Six Months ended May 31, 1981

(Unaudited)

	May 31 1981 ('000s)	May 31 1980 ('000s)
Revenue:		
Oil and gas-net	\$ 1,045	\$ 509
Drilling contracts	9,299	—
Management fees	500	198
Interest and other	196	211
	<u>11,040</u>	<u>918</u>
Expenses:		
Operating-oil and gas	150	67
Operating-drilling	6,230	—
General and administrative	1,313	242
Interest	1,996	533
Depreciation	529	22
Depletion	361	205
	<u>10,579</u>	<u>1,069</u>
Earnings/(loss) before the following:	461	(151)
Gain on disposal of shares	2	—
Minority interest	(67)	—
Earnings before income taxes	<u>396</u>	<u>(151)</u>
Income taxes:		
Deferred	401	—
Alberta Royalty Tax Credit	(52)	(43)
	<u>349</u>	<u>(43)</u>
Net earnings/(loss)	47	(108)
Retained earnings, beginning of period	653	247
Less preferred share dividends	72	47
Retained earnings, end of period	<u>\$ 628</u>	<u>\$ 92</u>
Cash flow for period	<u>\$ 1,405</u>	<u>\$ 119</u>
Earnings/(loss) per common share	<u>\$ 0.01</u>	<u>\$ (0.03)</u>
Cash flow per common share	<u>\$ 0.25</u>	<u>\$ 0.02</u>

Consolidated Statement of Changes in Financial Position

For the Six Months ended May 31, 1981

(Unaudited)

	May 31 1981 ('000s)	May 31 1980 ('000s)
Source of funds:		
Funds from operations	\$ 1,405	\$ 119
Proceeds on issue of common shares	8,000	1,489
Proceeds on issue of preferred shares	—	1,391
Proceeds on exercise of warrants	24	—
Decrease in other assets	114	3
Deferred revenue	40	—
Transfer of resource properties	—	937
Increase in long-term debt	23,584	—
Minority interest	525	—
	<u>33,692</u>	<u>3,939</u>
Application of funds:		
Purchase of property, plant and equipment	35,403	6,198
Purchase of limited partnership interests	53	—
Investment	325	939
Repayment of long-term debt	—	356
Preferred share dividends	72	47
	<u>35,853</u>	<u>7,540</u>
Increase in working capital deficiency	2,161	3,601
Working capital deficiency, beginning of period	2,296	473
Working capital deficiency, end of period	<u>\$ 4,457</u>	<u>\$ 4,074</u>

S & T Opens Oklahoma City Office

At a time when the Canadian drilling industry is slowing down, the future looks bright for S & T Drilling, Northstar's oilwell drilling subsidiary.

In March, April, and May, S & T had the highest rig utilization rate of any Canadian drilling contractor with more than 10 rigs. "It's the good people and equipment, and S & T's reputation that's putting us to work," says Northstar President, John Hagg.

Even so, the Company is taking advantage of opportunities in the United States. Three of its 11 rigs have been contracted to major independents in Oklahoma and three more rigs could be moved out of Canada by fall if the demand for rigs in Canada doesn't improve. An office was opened in Oklahoma City in June to handle the new operation.

"The Oklahoma oil companies find the quality and safety standards on our rigs to be superior to most of the rigs drilling in Oklahoma today," says Bill Parsons, S & T Vice-President.



Rig 10 is part of an 11-rig fleet operated by S & T. Three of the Company's rigs have recently been moved to the United States.

Tight Hole in Dome Farmout

Dome Petroleum has run casing to a total depth of 8,650 feet on a 640-acre farmout from

Northstar in the Simonette area of northwestern Alberta. The well, **Dome Simonette 6-21-62-26 W5M**, drilled between two Gething gas wells, one of which has been producing since 1972, is a potential gas well with completion scheduled in the third quarter of 1981. Additional details are being held confidential pending a future Alberta land sale. Northstar and its limited partners have a 42.5% working interest after payout in the well.

Berland River West Results

Initial drilling on the Berland River West prospect in northwestern Alberta indicates the potential for significant oil and gas reserves. Nine of 10 wells have been cased as potential oil or gas producers in the \$15 million drilling program on a 72,000 acre farmout from Amoco. The wells, drilled to approximate depths of 10,000 feet, are in various stages of completion and testing. Because of the potential of this area, Northstar has increased its holdings to 100,000 acres and may drill up to four wells before year-end.

Dorset Issue Hits \$15.6 million

Dorset Resources Ltd., formed at the initiative of Northstar, closed a public common share offering of \$15.6 million in mid-June. \$11 million of the issue has been committed to a joint venture with Northstar for oil and gas exploration in the United States and Canada. Dorset President, Al Smith, said, "I am extremely pleased at the success of the issue, particularly in light of the current uncertainty in the Canadian petroleum industry."

Northstar purchased 5% of the initial issue and has an option to purchase an additional 5% of Dorset's common stock. Dorset's shares and warrants are currently trading on The Alberta Stock Exchange at a premium to the original price of \$1.00 per unit.

Convertible Preferred Share Issue Completed

On June 2, 1981 Northstar Resources Ltd. finalized the issue of its 10% Cumulative Redeemable Convertible First Preferred Shares Series A.

The 500,000 share issue was sold to investors across Canada and was listed July 20, 1981 on The Toronto Stock Exchange.

Revenues Hit \$11 million

The Company's earnings of \$47,000 and cash flow of \$1,405,000 compare to a loss of \$108,000 and \$119,000 respectively during the same period in 1980. Earnings per share were 1¢ in 1981 versus a loss of 3¢ in 1980.

Financial results for the six month period ended May 31, 1981 include the operating results of S & T Drilling (Northern) Ltd. for approximately four months and Northstar Resources Inc. of Houston, Texas for three-and-one-half months.

Interest expense of \$1,996,000 reflects the effect of the \$19.5 million term loan in S & T Drilling (Northern) Ltd. and debt in Northstar Resources Ltd. of approximately \$9 million. In early June, Northstar completed a \$5 million convertible preferred share issue. The savings in interest expense due to the issue will not be apparent until the second half of the year. However, if current high interest rates remain, interest costs will continue to be a major expense item for the Company.

In the oil and gas operations of the Company, the major profit contribution came from our U.S. activities. The fact that Northstar Resources Inc. is virtually debt-free, combined with more favourable oil and gas prices and markets, accounts for the contribution from U.S. operations. Despite the fact that U.S. revenue is almost as high as in Canada, Canadian reserves still make up the major component of total reserve value. Total oil and gas revenues for the period were \$1,045,000 compared to \$509,000 in 1980.

The financial performance of S & T Drilling (Northern) Ltd. has been most satisfactory during the spring break-up period. Although this is traditionally a slow period for rig work, S & T managed to maintain a positive cash flow from its Canadian operations. Management believes that this performance, recorded when Canadian operations not only are traditionally low, but also adversely affected by the recent industry downturn, gives reason for optimism regarding the 1981-82 drilling season. Since January, S & T has reduced debt by a figure in excess of \$2.5 million. In addition, because the recently opened U.S. operation is providing more cash flow and better rig utilization, results should improve substantially in the last half of the year.

Consolidated Balance Sheet

May 31, 1981
(Unaudited)

	May 31 1981 ('000s)	May 31 1980 ('000s)
ASSETS		
Current assets:		
Accounts receivable:	\$11,298	\$ 2,381
Inventory	157	—
Income taxes recoverable	83	—
Marketable securities	245	11,439
	<u>11,783</u>	<u>13,820</u>
Investment—at cost	1,098	939
Property, plant and equipment		
—oil and gas (net)	27,447	14,887
Property, plant and equipment		
—drilling (net)	26,942	—
Deferred income taxes	149	—
Organization costs	25	—
	<u>\$67,444</u>	<u>\$29,646</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank overdraft	\$ 748	\$ 162
Accounts payable and		
accrued liabilities	8,146	4,465
Bank loans	7,346	13,267
	<u>16,240</u>	<u>17,894</u>
Deferred revenue	211	—
Long-term debt	27,104	3,238
Note payable	2,000	—
Deferred income taxes	3,350	—
Minority interest	592	—
Shareholders' equity		
Share capital	17,319	8,422
Retained earnings	628	92
	<u>17,947</u>	<u>8,514</u>
	<u>\$67,444</u>	<u>\$29,646</u>

Northstar Resources Ltd. and its subsidiary companies are engaged in oil and natural gas exploration and production, and contract drilling in Canada and the United States. The Company's Common Shares are listed on The Toronto and The Alberta Stock Exchanges, and its Preferred Shares are listed on The Toronto Stock Exchange under the respective trading symbols NOS and NOS PR. A.

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MICHAEL M. KANOVSKY
Executive Vice President



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